

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

In the Matter of)
Federal-State Joint Board on) CC Docket No. 96-45
Universal Service)

TO: The Commission

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY

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COMMENTS OF THE WESTERN ALLIANCE

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Summary

In enacting the 1996 Communications Act, Congress recognized that "rural areas are different" and that a "one-size-fits-all" approach to the new competitive environment of the telecommunications industry will exclude rural areas from the promise of the Information Age. Therefore, the Congress added Section 254 as an essential safety net for rural areas and other groups likely to be disregarded or bypassed by the new competitive market forces.

The Western Alliance, which is comprised of two associations of rural telephone companies serving the western states and Pacific Island territories, vigorously opposes the proposals of the Federal-State Joint Board to eviscerate Section 254 by substantially reducing universal service support for rural and other high cost areas. Specifically, the Western Alliance objects to the following Joint Board proposals: (1) the addition of an extraneous and inconsistent "competitive neutrality" principle; (2) the exclusion of universal service support for second residential lines, second residences, and multi-line businesses; (3) the establishment of a transitional frozen per-line support mechanism that will significantly reduce the present support received by rural telephone companies, strand substantial portions of their used and useful investment, and discourage future upgrades and expansions of their facilities; (4) the adoption of a non-existent, hypothetical, untested, non-validated and inappropriate proxy/benchmark mechanism as the future basis for calculating federal universal service support; (5) the reduction of the net

support received by rural telephone companies, by requiring them to contribute to the mechanism on the basis of their interstate (and perhaps their intrastate) revenues; (6) the disregard of the proven competence, integrity and experience of the National Exchange Carrier Association (NECA) as the administrator of universal service and other funds, and the potential replacement of NECA by an unproven entity submitting the lowest bid price for the job; and (7) the apparent mixing of very different high-cost, low-income, and schools/library/health care provider funds in a single fund.

The Commission needs to keep in mind that Section 254 is intended to safeguard the access of rural areas, low-income consumers, schools, libraries and rural health care providers to basic and advanced telecommunications services at reasonable and affordable rates, and that sufficient support mechanisms must be established to ensure that access. It is respectfully requested to make certain that existing and future rural and other high cost area mechanisms are based on actual and verifiable historical costs; that they not do not unlawfully "take" prior investments without just compensation; and that they encourage future upgrades and expansions of rural telecommunications infrastructure and services, as well as promote rural economic development.

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COMMENTS OF THE WESTERN ALLIANCE

The Western Alliance submits its comments on the Federal-State Joint Board's Recommended Decision, FCC 96J-3, released November 8, 1996, in the referenced docket, and on the Public Notice (Common Carrier Bureau Seeks Comment On Universal Service Recommended Decision), DA 96-1891, released November 18, 1996.

The Western Alliance vigorously opposes the Joint Board's proposals for reduction of universal service support for rural and other high-cost areas. In particular, it objects to the Joint Board's proposals: (a) to exclude universal service support for second residential lines, second residences, and multi-line businesses; (b) to discourage upgrade and expansion of rural service by "freezing" per-line support for rural telephone companies during a 1998-2003 transition period; (c) to convert ultimately to a nonexistent, untested and dangerously volatile and inexact proxy/benchmark support mechanism; and (d) to reduce further the net support received by rural telephone companies by requiring them to contribute to the federal mechanism on the basis of their interstate and intrastate telecommunications revenues. These proposals to slash support to existing rural carriers are

wholly inimical to universal service and rural economic development, not to mention the express principles of new Section 254(b) of the Communications Act.

Section 254 was added by Congress as an essential safety net for rural areas and other groups likely to be disregarded or bypassed by the competitive market forces unleashed by other portions of the 1996 Act. However, the Joint Board has proposed to eviscerate these rural safeguards by adding its own "competitive neutrality" principle to the express principles mandated by Congress in Section 254(b), and then interpreting this extraneous principle to promote the interests of potential future wireless competitors, and to slash the universal service support currently relied upon by incumbent rural wireline carriers. If implemented, the Joint Board's rural proposals will rip massive holes in the safety net designed by Congress -- to the detriment of infrastructure investment, service, quality, and rates (as well as general economic development) in rural areas.

The Western Alliance

The Western Alliance is comprised of the Western Rural Telephone Association (WRTA) and the Rocky Mountain Telecommunications Association (RMTA). These two trade associations represent nearly 250 small local exchange telephone companies (LECs) serving rural areas of the states west of the Mississippi River (including Alaska and Hawaii), plus the Pacific Island territories.

Western Alliance members include commercial telephone

companies (many family-owned) and cooperatives. They serve sparsely populated farming and ranching areas, remote mountain and desert communities, and Native American reservations. These generally are areas that the former Bell System and other large carriers ignored or declined to serve during the initial construction and development of the U.S. telephone network.

Western Alliance members have only a tiny fraction of the resources, revenues and customers of the Regional Bell Operating Companies (RBOCs) and other large and mid-sized carriers serving the nation's urban and suburban areas. Most members serve less than 3,000 access lines, and have relatively small revenue streams.

At the same time, Western Alliance members incur much higher costs (on a per-subscriber basis) than their larger counterparts. They are unable to realize economies of scale and scope like those available to LECs serving densely populated urban and suburban areas, but rather must frequently install lengthy loops (often 10-to-25 miles, and sometimes as much as 40-to-50 miles) over mountains, deserts and similar rough and unpopulated terrain to serve one or two remote customers. Overall, members serve an average of only 3.24 subscribers per mile along their wireline routes, and have per-subscriber loop costs far in excess of the national average. Their exchange offices serve only 500 or so subscribers on the average, and have per-subscriber local switching costs far in excess of the national average.

Western Alliance members have relied upon federal and state universal service support during the past decade to meet a critical

portion of the cost of their service obligations (for example, "carrier of last resort" requirements) while maintaining their local service rates at reasonable and affordable levels. Because of their small revenue bases and high costs (which entail actual dollars, rather than hypothetical, "forward-looking" dollars), they do not generate the large cash flows necessary to withstand sharp reductions or fluctuations in particular revenue categories without curtailing investment and services, or increasing rates. Unlike larger carriers, they do not have ready access to private capital markets, but instead must generally obtain additional financing via the time-consuming process of applying and qualifying for loans and guarantees from the Rural Utilities Service (RUS, formerly the Rural Electrification Administration) Rural Telephone Program or the Rural Telephone Bank (RTB).

Notwithstanding their small size and harsh operating and financial environments, Western Alliance members and other rural telephone companies have an outstanding record of furnishing quality facilities and services at reasonable rates to their rural customers. In some regions, their service records and customer satisfaction levels are far superior to those of neighboring large carriers that still employ outmoded 1950-or-1960-vintage electro-mechanical switches and multi-party lines.

The Joint Board's Additional "Competitive Neutrality" Principle Is Unnecessary, Inappropriate And Inconsistent With Section 254

Congress added Section 254 to the Communications Act as a "safety net" to prevent rural residents and businesses, low-income

consumers, schools, libraries and rural health care providers from being rendered information "have-nots" as an increasingly competitive telecommunications industry focuses upon high-profit customers and high-volume service areas. The principles stated expressly in Section 254(b) leave no doubt that the predominant goal of the provision is effective access by all Americans to basic and advanced telecommunications and information services -- namely, (1) availability of quality services at just, reasonable and affordable rates, 47 U.S.C. § 254(b)(1); (b) access by rural and low-income customers to telecommunications and information services reasonably comparable to those provided in urban areas at reasonably comparable rates, 47 U.S.C. § 254(b)(3); (c) access to advanced telecommunications and information services in all regions of the nation, 47 U.S.C. § 254(b)(2); and (d) access to advanced telecommunications services by schools, libraries and rural health care providers, 47 U.S.C. § 254(b)(6). Recognizing that market forces will not bring needed services to certain high-cost areas and certain customer classes, Congress mandated the establishment and operation of specific, predictable and **sufficient** universal service support mechanisms to alleviate market failures in rural and other small high cost markets. 47 U.S.C. §§ 254(b)(5) and 254(e). Finally, it declared that telecommunications service providers should support universal service by equitable and nondiscriminatory contributions. 47 U.S.C. § 254(b)(4).

Throughout the consideration of the 1996 Act, Senators and Congressmen repeatedly declared that its pro-competitive provisions

needed to be balanced by safeguards for vulnerable regions and groups, particularly rural areas.

For example, Senator Byron Dorgan of North Dakota declared that "rural areas are different" and need special safeguards:

Universal service has been a success because policymakers had the foresight to understand that market forces, left to their own devices, would not serve every American. Support mechanisms are necessary to ensure that every American could have access to phone service and electricity. This was true in building a nationwide phone network and it will be true in the future to deploy an advanced telecommunications network.

* * *

There are two cardinal rules I want to impress upon my colleagues today. The first rule is that telecommunications reform must protect and preserve universal service support. Without such support, the future of rural telecommunications is a guaranteed disaster rather than a promise of opportunity. The second cardinal rule is that competition in rural areas needs to be structured appropriately and it is imperative that safeguards be in place to ensure an orderly transition to a competitive marketplace.

* * *

Some have argued in favor of reducing, and in some cases, eliminating, the level of universal service support. This is flagrantly inconsistent with this Nation's 60-plus year commitment to universal service for all Americans. Congress and the administration alike have set many ambitious goals for the telecommunications industry -- goals that can be met only if we are willing to make a renewed commitment to support, not abandon, the policy of universal service.

* * *

Telecommunications reform should not adopt a one-size-fits-all policy of competition and deregulation for the entire Nation. Competition and deregulation cannot work as a national policy without rural safeguards. 141 Cong. Rec. S. 4210-12 (March 21, 1995).

Later, Senator Dorgan stated:

I come from a rural State. I know there are a lot of people in this Chamber who worship at the altar of competition and the free market. That is wonderful. But, I have seen deregulation. . . . Example: Airline deregulation. There was a move in this country and in these Chambers for airline deregulation, saying this will be the nirvana. If we get airline deregulation, Americans are going to be better served with more choices, more flights, lower prices, better service.

Well, that is fine. That has happened for some Americans but not for all Americans. Deregulation in the airline industry has had an enormously important impact if you live in Chicago or Los Angeles. ...

But I bet if you go to the rural regions of Nebraska, and I know if you go to the rural regions of North Dakota and ask consumers, what has airline deregulation done to their lives, they will not give you a similar story. . . . In fact, airline deregulation has largely, in my judgment, hurt consumers in rural America. We have fewer choices at higher prices as a result of deregulation.

* * *

First, a one-size-fits-all approach to competition in the local exchange may have destructive implications. In large, high-volume urban markets, competition will certainly be positive. However, in smaller, rural markets, competition may result in high prices and other problems. The fact is that in some markets (namely, high-cost rural areas) competition may not serve the public interest. If left to market forces alone, many small rural markets would be left without service.

That is why the protection of universal service is the most important provision in this legislation. S. 652 contains provisions that make it clear that universal service must be maintained and that citizens in rural areas deserve the same benefits and access to high quality telecommunications services as everyone else. 141 Cong. Rec. S. 7947-51 (June 8, 1995).

In explaining the initial Senate version of the 1995 Act, Senator Larry Pressler of South Dakota stated:

[T]his bill [S. 652] is also responsibly deregulatory. When it comes to maintaining universal access to telecommunications services, for instance, it does that. It establishes a process that will make sure that rural and small-town America doesn't get left in the lurch. 141 Cong. Rec. S. 7887-88 (June 8, 1995).

Senator Thomas Daschle of South Dakota sounded a similar note:

While legislation focuses on competition and deregulation, the bill before us also contains essential rural safeguards. It would create a Federal-State Joint Board to oversee the continuing issue of rural service and to monitor and help evolve a definition of Universal Service that makes sense for the present day and for the kinds of services that will be coming on-line. It does not demand unrealistic competition

in towns of 50 households.

* * *

Those who have taken the risks and made the investments to extend cable or phone service to smaller rural communities should not now be placed at risk of being overwhelmed by larger, better-financed companies.

As Congressman Ed Markey has said, that's not competition, it's communications cannibalism. State PUCs will be able to judge where communities can sustain competition and where they cannot. We should preserve the viability of the Universal Service Fund, for that reason as well. 141 Cong. Rec. S. 8478 (June 15, 1995).

During the final debate on the 1996 Act, Senator Thomas Harkin of Iowa stated:

The overall goal of this legislation is to increase competition and I wholeheartedly believe that increased competition will benefit consumers. However, we must also recognize that telecommunications competition is limited in some areas, especially in many rural areas. The high cost of providing telecommunications to rural areas is prohibitive for most telecommunications service providers without some incentive. The 1934 communications bill understood this and adopted a principle called universal service, which was thankfully maintained and updated in S. 652.

* * *

Without universal service protections, advanced telecommunications will blow right by rural America creating a society of information haves and have nots. S. 652 recognizes that the definition of universal service is evolving as the technology changes. S. 652 requires the FCC to establish a Federal-State Joint Board to recommend rules to reform the universal service system. The Joint Board will base its policies on principles which understand that access to quality, advanced telecommunications services should be provided to all Americans at a reasonable cost. 142 Cong. Rec. S. 713.

Debate in the House of Representatives revealed similar understandings regarding the role of the universal service provision as an essential safeguard for rural America in an environment of increasing telecommunications competition. For example, Congressman Henry Bonilla of Texas declared:

This legislation [H.R. 1555] benefits all Americans, including those living in rural America. Those living on the ranches, farms and small towns of South and West Texas will benefit along with those living in San Antonio and other big cities. It is essential that our rural residents continue to have equal and affordable phone service.

This bill protects universal service while promoting technological advances. Rural Americans should share in the benefits of these technologies. I believe that this bill gives proper consideration to providing protection for rural communities where our consumers are spread thinner and the cost for providing services can be much higher. I'm pleased that this bill recognizes that our rural communities operate under unique service conditions which must be addressed.

This bill broadly deregulates and opens markets to fair competition, while providing protections to rural local telephone companies. Low cost and availability of service have always been the concerns of rural telecommunications customers in communities like Alpine and Del City, Texas. H.R. 1555 contains important protection for these communities, including universal service principles that provide for comparable rural/urban rates and service. . . 141 Cong. Rec. H. 8497 (August 4, 1995).

During final House consideration of the 1996 Act, Congressman William Orton of Utah stated:

First, I would like to express my support for the strong provisions in this bill which protect rural America. Over the last few months, I have been pleased to work with rural Republicans and Democrats to insist on strong universal service and toll-rate-averaging provisions. Late last year, we sent a letter to conferees expressing our concerns and identifying provisions critical to rural America. Inclusion of such provisions in the final Conference Report will save the average rural telephone user hundreds of dollars a year.

For example, the House-passed bill contained much weaker universal service provisions than the Senate bill. Universal service is the mechanism which ensures affordable monthly phone rates for rural residents. The Organization for the Protection and Advancement of Small Telephone Companies (OPASTCO) recently conducted a detailed study on the effect of rates in a deregulated environment. This study found that the elimination of universal service support in a deregulated environment could increase annual phone rates for rural Utahns by \$198 a year. Fortunately, the stronger Senate provision, fully protecting universal service, prevailed. 142 Cong. Rec.

H. 1172 (February 1, 1996).

These statements by Senators and Congressmen, plus the express wording of the Section 254(b) principles, make it absolutely clear that Section 254 is intended to be a safeguard against competitive excesses and market failures. Its essence is that rural areas, low-income consumers, schools, libraries and rural health care providers must have access to basic and advanced telecommunications services at reasonable and affordable rates, and that sufficient support mechanisms must be established to ensure that access.

There is nothing in the wording of Section 254 which indicates or implies that rural residents should be deprived of needed services or forced to pay substantially higher prices for such services, in order to promote "competition" or "pro-competitive" support mechanisms in rural areas. Congress mentioned "competitive neutrality" only one time in Section 254 -- in Section 254(h)(2), where it expressly required the Commission to establish "competitively neutral" rules to enhance access by classrooms, health care providers and libraries to advanced telecommunications and information services, and to define the circumstances under which a telecommunications carrier may be required to connect its network to public institutional users. Given this express reference to "competitive neutrality" in Section 254(h)(2), the lack of any reference to "competitive neutrality" in the general principles of Section 254(b) or in the specific rural support provisions of Section 254(e) demonstrates a conscious decision by Congress **not** to include "competitive neutrality" as a basic or

rural universal service principle.

Nonetheless, the Joint Board proposes to add a "competitive neutrality" principle pursuant to the "necessary and appropriate" provision of Section 254(b)(7). This extra principle is wholly inconsistent with the language of Section 254(b), and the foregoing statements of Senators and Congressmen. Moreover, the Joint Board exalts its extraneous principle to a position "more equal" than the six express principles of Section 254(b), and uses it to promote the entry of wireless competitors into rural areas whether or not such entry is feasible from a service or economic standpoint.

For example, the Joint Board refused to include highly demanded and widely deployed "equal access to interexchange service" (i.e., "1+" presubscription to toll service) as a core universal service¹ solely because of unspecified "potential costs" to wireless carriers in upgrading their facilities and because wireless carriers are not currently required to provide the service (Recommended Decision, para. 66). Likewise, it rejected E911 service as a core universal service because wireless carriers are not currently capable of providing it, and would have to make technical upgrades to do so (Recommended Decision, para. 51). In other words, the Joint Board declined to classify as universal

¹ Rural residents and businesses generally must make a higher portion of toll calls, and pay significantly more in monthly toll charges, than to their urban/suburban counterparts. This is because rural exchanges and local calling areas have far fewer subscribers (500 or so, on the average) than urban/suburban calling areas. Hence, rural residents must make far more frequent toll calls to reach family members, friends, stores, government agencies, health care providers, vendors, and so forth.

services (and thereby support in rural areas) two services which: (a) are reasonably comparable to services provided in urban areas; (b) meet all four criteria² of Section 254((c)(1); and (c) can be provided by most rural telephone companies. Notwithstanding the substantial benefits of these services to rural residents, the Joint Board rejected them solely because their inclusion might - - potentially - - hamper the ability of certain possible future wireless competitors to qualify for universal service support.

However, the most egregious example of the Joint Board's misuse of its extraneous "competitively neutral" principle is its proposal to make the frozen per-line support payments of rural telephone companies "portable" to competing wireless carriers and other competitive local exchange carriers (CLECs) during the transition period (Recommended Decision, paras. 296-97). In those rural areas where the per-line Universal Service Fund (USF), weighted Dial Equipment Minutes (DEM) and Long Term Support (LTS) payments to rural telephone companies significantly exceed the per-customer costs of wireless carriers, this proposal will result in windfall profits for the wireless carriers. For example, in the study area of one Western Alliance member, aggregate per-line USF/DEM/LTS support during the transition period is estimated to be \$500.00 annually, while per-subscriber cellular costs are projected to be \$380.00 annually. Thus, a potential future "wireless competitor"

² That is, equal access to interexchange carriers and E911 are "essential to education and public safety," "subscribed to by a substantial majority of residential customers," "deployed in public networks" and "serve the public interest."

of this member would be able to offer service for virtually nothing, while generating significant windfall profits from portable federal support -- even if the normal working of market forces would have discouraged or precluded entry. This inane result not only impairs universal service by discouraging infrastructure investment by small, rural LECs, but also blatantly favors potential wireless carriers to an extent that cannot be deemed "competitively neutral" by any reasonable definition of that term.

Even in areas where the per-line USF/DEM/LTS payments to rural telephone companies are comparable to the per-customer costs of wireless carriers, the Joint Board's proposal gives a massive and unwarranted competitive advantage to wireless carriers. This is because the rural telephone company will receive the same averaged per-line support for customers in towns as it does for customers in outlying farm, ranch and other areas -- even though the costs of serving the latter can often be 10 times higher. If adopted, the Joint Board's "portable" support proposal would permit wireless carriers and other CLECs to "creamskim" customers in these lower-cost towns and receive windfall support, because their costs of serving the towns would be much less than the averaged, per-line support levels applicable to the rural telephone company's entire study area (including its higher-cost outlying areas). The Joint Board's assertion that this will not happen "because CLECs must provide service to and advertise its service throughout the entire study area" (Recommended Decision, para. 297) is naive. Wireless

carriers and other CLECs may "offer" service (via resale in remote, high-cost areas) and "advertise" service throughout entire study areas, but they will construct facilities and aggressively market service only in the more densely populated and profitable lower-cost areas.

In sum, the Joint Board's proposed additional "competitively neutral" principle is wholly unnecessary, inappropriate, and inconsistent with the express intent and wording of Section 254. Moreover, its primary use appears to be to skew the playing field in rural areas against the rural telephone companies that have provided quality service for decades in order to invite (and significantly reward) entry by potential new wireless and other competitors whether or not market factors warrant such entry. The Commission is respectfully requested to reject this extraneous principle, and to design and implement all existing and future universal service support mechanisms solely on the basis of the express principles of Section 254(b).

**Exclusion Of
Second Lines/Residences And Multi-Line Businesses
Violates Comparable Services And Sufficiency Principles**

As Senator Dorgan and others have noted, Section 254 was intended to establish effective and sufficient safeguards to protect rural areas and other specified groups in danger of being ignored or neglected by a competitive telecommunications industry, and **not** to reduce or eliminate universal service support. However, in a blatant and misguided attempt to reduce universal service out-

lays, the Joint Board has proposed to limit support in rural areas: (a) to a single connection to a customer's principal residence (Recommended Decision, paras. 89-90); and (b) to single-line businesses on a reduced basis (Id., paras. 91-92). In other words, it proposes to exclude universal support for second residential lines, second residences and multiple-line businesses in rural areas.

The Joint Board proposal violates directly and immediately three of the express principles of Section 254(b) -- namely, the requirements: (1) that rural and low-income customers have access to telecommunications and information services reasonably comparable to those provided in urban areas at reasonably comparable rates, 47 U.S.C. § 254(b)(3); (2) that all regions of the nation have access to advanced telecommunications and information services, 47 U.S.C. § 254(b)(2); and (3) that universal service support mechanisms be sufficient, 47 U.S.C. §§ 254(b)(5) and 254(e). Also, the increased local service rates resulting from the narrowed scope and reduced levels of support will violate yet a fourth basic universal service principle -- that quality services be available to all Americans at just, reasonable and affordable rates, 47 U.S.C. § 254(b)(1). In fact, the real world consequences of the proposed exclusions will include not only increased local service rates for all rural residents and businesses, but also the destruction of a decade of effort by rural government agencies and private entities (including rural telephone companies) to promote rural economic development.

Second residential lines. During the 1990s, one of the most

significant areas of telecommunications service growth in urban, suburban and rural areas has been second lines for residences. Not only do families continue to try to preserve peace and harmony by obtaining second telephone lines for adolescents, but also more and more households need a second line to maintain voice grade access to the public switched network while the other line is in use for extended periods to originate or receive facsimile transmissions, and/or to access the Internet and on-line information services. Hence, second residential lines have become essential for many households to maintain effective access to the network. In addition, they satisfy the criteria of Section 254(c)(1) by being: (a) essential to education and public safety; (b) used by a substantial portion of residential customers (at levels comparable to the use of emergency services, operator services and directory assistance); (c) deployed in public telecommunications networks; and (d) consistent with the public interest.

In urban and suburban areas, a second residential line is normally available at the same or lower rate than the initial residential line. In stark contrast, if universal service support is denied to second residential lines in rural areas, rural carriers will have to charge customers substantially more for a second line. For example, one Western Alliance member that currently provides local service at a \$19.95 monthly rate (without the federal subscriber line charge) for all (primary and secondary) residential lines estimates that it would have to triple its monthly rate for second residential lines -- to \$60.15 -- if the

Joint Board proposal is adopted. In the alternative, if its state commission permitted it to rebalance its rates to make up for the revenue shortfall (an assumption belied by experience at the state level), the Western Alliance member projects that it would have to increase all of its local service rates by 61 percent per month³. As is discussed later, revenue dislocation of this sort only enhances the likelihood that an unconstitutional "taking" will occur if the Recommended Decision is adopted.

In sum, the Joint Board's second residential line proposal would place rural residents at a serious disadvantage vis-a-vis their urban and suburban counterparts with respect to their access to, and cost of, telecommunications and information services. They will either have to pay substantially more for a second residential line, or suffer a much higher incidence of blocked and delayed calls. Neither situation can be deemed "reasonably comparable" to the services or rates available in urban areas, as required by Section 254(b)(3). Therefore, the Commission should reject the Joint Board proposal, and continue to allow local exchange carriers serving high-cost areas to receive universal service support for second residential lines.

Second residences. Whereas it is understandable that the Joint Board does not want to support telephone service to the vacation ranches and ski chalets of a small number of high-

³ For example, the member would need to increase its initial-line residential rate from \$19.95 to \$32.00 per month; (b) its single-line business rate from \$40.00 to \$64.49 per month; and (c) its multiple-line business rate from \$48.00 to \$77.38 per month.

profile, wealthy individuals like Ted Turner and Robert Redford, its exclusion of support for the second residences of all telecommunications customers places an expensive and onerous administrative burden upon rural telephone companies. With regard to the less prominent individuals and families maintaining multiple residences served by different telephone carriers in different parts of the state or nation, it will be extremely difficult or impossible for rural telephone companies to determine that these customers have additional residences elsewhere, and (if so) to ascertain which of such residences is the "principal" one.

Moreover, the Joint Board proposal does not address the likely eventuality that a rural telephone company might add a new line to provide service to a new primary residence, only to later have the residence sold to an individual or family intending to utilize it as a secondary residence. Under those circumstances, it would appear that the cost incurred by the telephone company to add the line will be stripped of universal service support. This would be an extremely inequitable result, but the problems which are suggested by the Joint Board's approach do not stop there.

As previously mentioned, the Joint Board proposal would impose an almost impossible policing burden upon telephone companies. Current subscriber billing records generally do not identify customers with multiple residences, or designate the principal residence of such customers. Moreover, simple records and questions may not be accurate, for sophisticated customers will quickly figure out that they can save on monthly telephone charges

at their rural home if they tell their rural carrier that it is their "principal" residence, while they will suffer no urban rate consequences whether they tell their urban carrier that their urban home is their "principal" or their "secondary" residence.

The Joint Board offers no indication that it has considered the effort or cost that rural telephone companies may incur to determine (much less investigate) the "principal" versus "secondary" residence status of their residential customers, or their liabilities to the fund administrator and their customers for erroneous determinations. The Joint Board has also failed to consider how rural telephone companies should question and classify various types of customers having multiple services or billing addresses -- for example, customers taking both wireline and wireless service, and customers who split their year between two or more "principal" residences (e.g., retired "snowbirds" living six months in Montana and six months in Arizona).

Whereas the Joint Board was extremely reluctant to place "unduly burdensome reporting and accounting requirements" on school districts regarding their eligibility to participate in its proposed \$2.25 billion universal service program for schools and libraries (Recommended Decision, para. 567), it has indicated no similar reluctance to impose time-consuming and expensive "residence patrol" duties on rural telephone companies. This is both ironic and curious, for the typical rural telephone company

has an administrative and clerical staff⁴ much smaller than that of the typical rural school district (not to mention the substantially larger staffs of urban and suburban school districts).

In any event, rural telephone companies will incur significant costs to investigate and determine the "principal" versus "secondary" residence status of their customers (as well as to investigate and decide whether certain second lines to the same address constitute the second line for the same household or single lines for separate households). These administrative costs will reduce the **net** universal service support available to the carriers for the provision, maintenance and upgrading of their facilities and services. Hence, the Commission should reject the Joint Board proposal regarding second residences, and permit universal service support for second residences. At the very minimum, the Commission should relieve rural telephone companies and other eligible telecommunications carriers from administrative costs and investigatory burdens and liabilities by declaring that they may rely entirely upon each customer's self-certification whether a specified line is serving a "principal" or "secondary" residence, and that rural telephone companies have no obligation to investigate these certifications.

Multiple-line businesses. The Aspen Institute has found that Rural America suffered one of the longest and most severe economic

⁴ For example, the typical Western Alliance member has an administrative and clerical staff of 3 -to- 10 employees.

declines in the nation's history during the 1980s⁵. Not only were rural areas hit hard by the national recessions in 1980 and 1982, but also structural changes produced sharp reductions in agricultural, mining, forestry and rural manufacturing jobs throughout the decade.

The Aspen Institute further determined that telecommunications infrastructure and telecommunications-intensive businesses were instrumental in stemming the rural depression, and that they comprise a key factor in the future economic development of rural areas. For example, state and county economic development agencies, as well as rural telephone carriers, have brought thousands of new jobs to rural areas in recent years by attracting telemarketing, customer support, mail order fulfillment, data entry and similar telecommunications-intensive businesses. If rural infrastructure continues to be upgraded until comparability is achieved with urban and suburban facilities, rural communities will be able to attract a much broader base of information and service firms that can now locate anywhere they have access to state-of-the-art and reasonably priced telecommunications facilities and services.

Notwithstanding the record and promise of telemarketing and other telecommunications-intensive firms in rural economic develop-

⁵ Edwin B. Parker et al., Rural America in the Information Age: Telecommunications Policy for Rural Development, University Press of America: 1989); Edwin B. Parker et al., Electronic Byways: State Policies for Rural Development Through Telecommunications, (Westview Press: 1992).